

## Message Text

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64

ORIGIN SS-30

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /031 R

DRAFTED BY SA/C:GKAMENS:REF

APPROVED BY AA/SA:RHNOOTER

EA:MSTEARNS (SUBS)

DAA/SA:GZIMMERLY (SUBS)

NSC:JBUSHNELL (DRAFT)

SA/PPB:CHBREECHER (SUBS)

EA/LC:LMRIVES (DRAFT)

S/S - MR. GAMMON

----- 075091

O R 212228Z DEC 73

FM SECSTATE WASHDC

TO AMEMBASSY PHNOM PENH IMMEDIATE

INFO AMEMBASSY BANGKOK

AMEMBASSY SAIGON

S E C R E T STATE 249438

EXDIS

E.O.11652:GDS

TAGS: EAID, CB

SUBJECT: HYPERINFLATION IN CAMBODIA - FY 1974 AID LEVELS

REFS: A, PHNOM PENH 13325 D. STATE 245463

B. PHNOM PENH 13838 E. PHNOM PENH 14210

C. STATE 242733

1. REGRET DELAY IN RESPONDING TO REFS A AND B. AS INDICATED IN REF. C, WE ARE IN SUBSTANTIAL AGREEMENT IN PRINCIPLE WITH MANY OF YOUR PROPOSALS FOR MEETING CAMBODIA'S CURRENT SERIOUS INFLATION. THE MAJOR REASON FOR OUR DELAY IN RESPONDING TO YOUR PROPOSALS HOWEVER IS THAT WE ARE FACING VERY SERIOUS PROBLEMS IN TRYING TO LOCATE ADEQUATE RESOURCES TO IMPLEMENT YOUR PLAN. RECENT CONGRESSIONAL  
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APPROPRIATIONS ACTION ON FAA (REF. D) MAKES IT APPEAR AT THIS JUNCTURE THAT IT MAY BE VERY DIFFICULT TO PROVIDE THE KIND OF INCREASE IN AID FUNDS YOU ARE REQUESTING. A HIGH LEVEL INTERAGENCY MEETING WILL TAKE PLACE SHORTLY AFTER

CHRISTMAS TO DISCUSS THE PROBLEMS YOU HAVE RAISED AS WELL AS THE OVERALL FUNDING LEVELS ANTICIPATED FOR INDOCHINA.

2. YOUR PROPOSAL TO INCREASE PL 480 RICE DISTRIBUTION ALSO RAISES SERIOUS QUESTIONS, ESPECIALLY IN VIEW OF RICE AVAILABILITIES AND OVERALL FUNDING PICTURE. WE WILL BE

COMMENTING LATER IN GREATER DETAIL ON RICE PROPOSAL ABOUT WHICH WE HAVE SERIOUS RESERVATIONS.

3. CERTAINLY THE OTHER ASPECTS OF YOUR POLICY PROPOSALS, INCLUDING NEED TO ARRIVE AT MORE REALISTIC EXCHANGE RATE AS SOON AS POSSIBLE AND TO KEEP EXCHANGE RATE REALISTIC, ARE USEFUL AND NECESSARY. WE URGE YOU TO PURSUE THESE WITH GKR AS WELL AS YOUR REF. A PROPOSALS ON SALARY INCREASES, PARA 11 (C); ELIMINATING CONSTRAINTS ON IMPORT DEMANDS, PARA. 11 (D); STIMULATING INVESTMENTS, PARA. 11 (E); AND REFUGEE RESETTLEMENT, PARA. 11 (F).

4. WE DO NOT WANT TO GET IN THE POSITION WITH GKR WHEREBY WE ENCOURAGE THEM TO TAKE NECESSARY REFORMS ON THE PREMISE THAT WE WILL BE ABLE TO COME THROUGH WITH ADDITIONAL RICE AND AID DOLLAR FUNDING. WE HOPE, FOLLOWING NEXT WEEK'S INTERAGENCY MEETING, TO GIVE YOU A MORE DEFINITIVE ANSWER ON POSSIBILITIES FOR AID AND RICE RESOURCES. MEANWHILE, WE WOULD APPRECIATE YOUR REASSESSING 103 MILLION DOLS REQUIREMENT FOR THIS FISCAL YEAR PROJECTED IN YOUR REF. A, TO SEE WHERE IT MIGHT BE POSSIBLE TO REDUCE REQUIREMENTS. AMONG THE AREAS WE WOULD LIKE YOU TO CONSIDER ARE USE OF ESF OR GKR DOLLAR AND SDR RESERVES TO PAY FOR A PORTION OF PL 480 FREIGHT BILL; ELIMINATION OF LESS ESSENTIAL ITEMS FROM ESF ELIGIBILITY AND POSSIBLY FURTHER RESTRICTION ON GOODS ELIGIBLE UNDER THE CIP; FURTHER REDUCTION IN CIVILIAN POL CONSUMPTION (BEYOND 25 PERCENT CUT MENTIONED REF. A); A MORE SEARCHING ASSESSMENT OF PRIVATE SECTOR GENERAL LICENSING NEEDS OVER COMING DRY SEASON IN LIGHT OF ANTICIPATED SERIOUS INTERDICTION OF CONVOYS;  
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OTHER AID DOLLAR SAVINGS (SUCH AS IMMEDIATE SHIFT TO USE OF LOCAL CURRENCY COUNTERPART GENERATIONS FOR VOLAG GRANTS AND OTHER REFUGEE ACTIVITIES PROPOSED STATE 241791); AND LASTLY, THAT GKR CONSIDER DRAWING DOWN SOME OF ITS GOLD RESERVES.

5. WILL ADVISE YOU AS SOON AS POSSIBLE REGARDING ADDITIONAL RESOURCES, AND WOULD APPRECIATE EARLY REPLY REGARDING PARA. NO. 4 ABOVE.

6. PHNOM PENH'S 14210 RECEIVED SINCE FOREGOING DRAFTED. WHILE PRESENT MESSAGE DOES NOT RESPOND ENTIRELY TO YOUR NEEDS, WE HOPE REPLY MORE FULLY FOLLOWING MEETING REFERRED

TO PARA. ONE ABOVE. RUSH

SECRET

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